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Strengthening Trade Policy Formulation in Jordan

Final Report

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Abstract

This paper comments on current trade policy formulation in Jordan and proposes some changes including how to incorporate the new Jordan Authority for Enterprise Development (JAED). This paper is not an in depth analysis of the policy formulation process, it is intended to raise issues for further study during the preparation of the national enterprise strategy.

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Executive Summary

The institutional structure of trade policy formulation in Jordan has the following weaknesses:

1. policy proposals lack detailed research of net economic benefits
2. fragmented proposal preparation and approval among different government departments lead to lack of consistent and coordinated policies
3. few formal mechanisms exist for departments to consult with each other

The major recommendations of the paper are that:

1. JAED conducts relevant economic research of new trade policy proposals to determine their net gain for Jordan;
2. A formal inter-departmental committee be established comprising competent officials that will prepare and coordinate trade policy for approval by a Cabinet subcommittee. JAED would provide its research to the officials committee.

1. Introduction

The government is moving forward with the establishment of the Jordan Authority for Enterprise Development (JAED). Furthermore, the new Minister of Industry and Trade, Dr. Ahmed Hindawi, would like a national trade and investment strategy to be prepared to lead Jordan over the next five to ten years. Both issues raise the questions of how trade policy is formulated in Jordan and what role JAED can play in the process. This paper comments on current policy formulation and proposes some changes including how to incorporate JAED. This paper is not an in depth analysis of the policy formulation process, it is intended to raise issues for further study during the preparation of the national strategy. However, it is essential that JAED is established soon and builds capacity to contribute to the development of trade and investment policy, including a national strategy. It is useful to define the main terms for the purposes of this paper:

Trade policies include any measures the Government imposes at the border, e.g. tariffs and non-tariff measures such as quarantine measures or behind the border, e.g. subsidies and limits on direct foreign investment, that affect the access to the Jordanian market by foreign suppliers of goods and services, and such measures imposed by trading partners on Jordanian goods and services.

Trade policy formulation refers to the process of a) research, b) consultation, and c) approval of desired trade policies that the Government will negotiate or implement vis-à-vis its trading partners.

Trade Policy Implementation includes negotiating desired trade policies with trading partners¹, and the practical steps of complying with the obligations under each trade agreement.

¹ For the purposes of this paper, negotiations are included in the definition of implementation but can also be defined as part of the policy formulation process or as a separate term. Although nationally agreed

2. Current Trade Policy in Jordan

2.1 Trade Policy Formulation

Trade policy formulation in Jordan is a relatively simple process. Policy is generated within a handful of ministries, approved by Cabinet and implemented. Parliament is not involved until any international trade agreement has to be ratified, by which time it is usually too late to renegotiate aspects of concern to Parliament. The small size of the government and the country is a strength to the formulation process. Consultation and input are easily and quickly arranged among officials and decision-makers. However, the high turnaround of officials at all levels of seniority weakens institutional capacity.

Three ministries are involved in trade policy formulation:

1. The Ministry of Industry and Trade (MIT) is responsible for all policy issues relating to the World Trade Organization (WTO), the Greater Arab Free Trade Agreement (GAFTA) and the Jordan – United States Free Trade Agreement (USFTA), the European Free Trade Agreement (EFTA) and all Jordan's bilateral trade agreements. The Foreign Trade Policy Directorate administers the WTO, JUSFTA, Singapore FTA and the EFTA. The Industrial Development Directorate regulates Qualifying Industrial Zones in Jordan. The Regional Economic Cooperation Directorate administers GAFTA and the Arab bilateral agreements.
2. The International Cooperation Department of the Ministry of Planning (MoP) is responsible for the European Union Association Agreement (EUAA).
3. The Ministry of Agriculture (MoA) formulates and implements agriculture-related trade policy and under all trade agreements.

Due to limited resources and weak capacity, very little trade research is done within these ministries. As discussed below, staff devote their working time to implementation issues. The Trade Agreement Unit at MoA conducts research but does not have the time or resources to conduct significant economic modeling. Ministries rely on donor assistance to fund any significant research needs. Donors have worked with the government, civil society and business associations mainly to develop awareness and advocacy skills on trade issues, and have provided limited training on economic analysis. Accordingly, the availability of ad hoc technical assistance from donors has enabled the Government to focus on priorities other than research capacity. The Economic Research and Studies Division at MIT has one economist among five staff members, and output is limited to a monthly bulletin of trade statistics. A more sustainable system of trade research is urgently needed to formulate appropriate policy for Jordan.

policies may have to be adjusted during negotiations, any major changes to policies should be referred back to the policy formulation process. Furthermore, trade negotiations involve a different set of skills than policy formulation and are therefore more akin to implementation activities.

The policy approval process approximates three approval paths:

1. Matters within the authority of a ministry and compliant with all international agreements are developed and authorized within the relevant ministry. Such decisions are generally procedural.
2. Matters within the authority of one or more ministries and compliant with all international agreements are developed within the concerned ministries but require Cabinet approval. Such decisions deal with tariff and quota changes, etc.
3. New trade agreements. After the Prime Ministry has directed that a new agreement be negotiated, the Minister of Industry and Trade convenes an ad hoc negotiating committee comprising representatives from relevant government departments. The draft negotiated agreement is approved by Cabinet and ratified by Parliament. Cabinet can distribute the draft agreement to different parties for comment before giving their approval.

Weaknesses exist in the negotiation process for new agreements. Firstly, proposals for new agreements have not been based on any well researched economic studies. Political interests tend to initiate and can intervene in the negotiation process. Secondly, MOP, and not MIT, is responsible for negotiations with the EU. This divides skills and duplicates resources between two ministries. Thirdly, there appears to be no common head of the negotiating team. For example, the Director of the Central Bank once led trade negotiations with Israel. Fourthly, common negotiation positions are often not prepared and agreed before negotiations commence. Instead, negotiations are often based on templates received from the other party and proceed on a standard mercantilist approach (maximize exports and minimize imports) or on one that simply maximizes revenue without taking into account interactions of supply and demand.

Parliament appears to have expressed little interest in negotiations since Jordan's accession to the WTO. By the time the law seeking to ratify an agreement reaches Parliament all substantive negotiations with the other party have been concluded. However, there is room for individual Deputies to become involved or at least consulted. They could be appointed part of the negotiating team or meet regularly with the team.

2.2 Trade Policy Implementation

The Customs Department of the Ministry of Finance has a major implementation role but its policy role is limited to providing trade data. Remaining implementation is carried out by MIT and MoA. The majority of MoA resources are spent on implementation of the WTO Sanitary and Phytosanitary Agreement.

MIT is responsible for most of the remaining duties under each trade agreement. Specialist functions include administering standards and metrology, intellectual property rights and trade remedies. The former WTO Unit at the Ministry is now the Jordan

Foreign Trade Policy Directorate (FTPD). The FTPD acts as Jordan's secretariat to three of Jordan's four main trade arrangements: the WTO, GAFTA and JUSFTA. FTPD staff conduct negotiations, correspond with trade partners and trade organizations, and liaise with the public on trade matters.

MIT also issues import and export permits and licenses. This is an historical function of ministries of industry and is no longer necessary. Permits are unnecessary and very few imports require ministerial approval for health and safety reasons. The Customs Department already tracks the identity of all traders and is able to obtain the necessary health and safety approvals.

The International Cooperation Department of MoP fulfills the same functions as the FTPD with respect to the EUAA. There are synergy gains from combining these two departments.

2.3 Role of Private Sector

The government has increasingly sought private sector comment in recent years. Three trade advisory committees exist comprising business association representatives. These are the Goods Committee, Services Committee, and the Agriculture Committee. The Agriculture Committee is a proposed amalgamation of the WTO and the EU agricultural trade committees. Interaction with ministries tends to be informal. The Agriculture Committee communicates with the Ministry on a regular basis. However, the other committees are larger and appear to leave communication with MIT up to individual committee members. A survey of members of the Services Committee intended to ascertain their views on barriers to key WTO member markets elicited a poor response. The private sector also gave a limited response to calls for input into policy issues to be raised at the Joint Committee meeting between the Governments of Jordan and the US under the JUSFTA in June 2004.

The TIJARA Coalition is a body of 34 public and private sector entities seeking to promote trade and investment between Jordan and the United States. Formal dialogue takes place between the government and private members at a monthly meeting; however, the policy advocacy function of the Coalition is still in its infancy.

2.4 Academia and Private Research

Economics is taught at a number of universities throughout the Kingdom; however, little applied research on trade issues is published. Few independent research organizations conduct trade policy research. The Jordan Center for Policy Research and Dialogue was established in mid 2004 with funding from the Higher Center for Science and Technology. The JCPRD is directed by Dr. Taher Kanaan and has already published research on Jordan's QIZs. As part of the Economic Research Forum network of policy research organizations, the JCPRD facilitated a country briefing on Jordan that included independent trade research. Two further private entities occasionally publish

commentaries on trade issues: Henry Azzam, Chairman of JordanInvest and the Research Department of the Export Finance Bank.

2.5 Summary of Weaknesses

In summary there are two major weaknesses of current trade policy formulation in Jordan. Firstly, little if any technical research is conducted to assess the net welfare gains for Jordan due to potential trade policy reforms. Secondly, no formal and transparent institutional structure exists to initiate research, consult with all relevant parties and negotiate on the basis of a commonly agreed policy position.

3. Trade Policy Formulation Reform

Trade policy is not a stand alone component of economic policy. It is a dynamic influence on the competitiveness of the firm, interacting with other macroeconomic and microeconomic policies. Macroeconomic variables such as revenue, inflation and the exchange rate, and microeconomic issues such as transport, competition and investment policy all influence or are influenced by the opening of borders to the flow of goods and services.

In particular, trade policy impacts the productivity and competitiveness of all enterprises. For example during a period of trade liberalization, import competing firms bear short term adjustment costs. In Jordan such enterprises are represented by light manufacturing industries such as food processing and footwear. Meanwhile, exporting firms enjoy lower input costs and better access to foreign markets.

Therefore, it is important that trade policy formulation consider the views of both government actors responsible for economic regulation in Jordan, as well as the views of the private sector drivers of employment and productivity growth.

The majority of small countries with an effective trade policy consultation process have an institutional structure with the following characteristics:²

- 1) A Cabinet level committee to decide policy;
- 2) A senior official level inter-departmental committee to manager research and submit policy proposals to the higher committee;

² The Office of the US Trade Representative (USTR) formulates and negotiates trade and investment policy for the United States. The USTR is part of the Executive Office of the President and its head is a Cabinet member. The USTR coordinates trade policy through two committees. The Trade Policy Review Committee comprises senior officials from 17 agencies that manage more than 60 specialized subcommittees to examine trade matters. The Trade Policy Review Group considers significant policy issues at the Under Secretary level. Seven general and 26 specialized private sector committees provide input into policy making process and monitor compliance of existing trade agreements. Finally, five members from each House of Congress are appointed as advisors on trade policy and work closely with the USTR.

- 3) A Ministry of Trade to negotiate and implement trade policy and service both committees;
- 4) Representation by or consultation with Parliament during the formulation process easing future Parliamentary approval of trade initiatives; and
- 5) A system of private sector and civil society advisory councils to act as a sounding board and provide input into policy making. The TIJARA Coalition is an example of one such advisory council in Jordan.

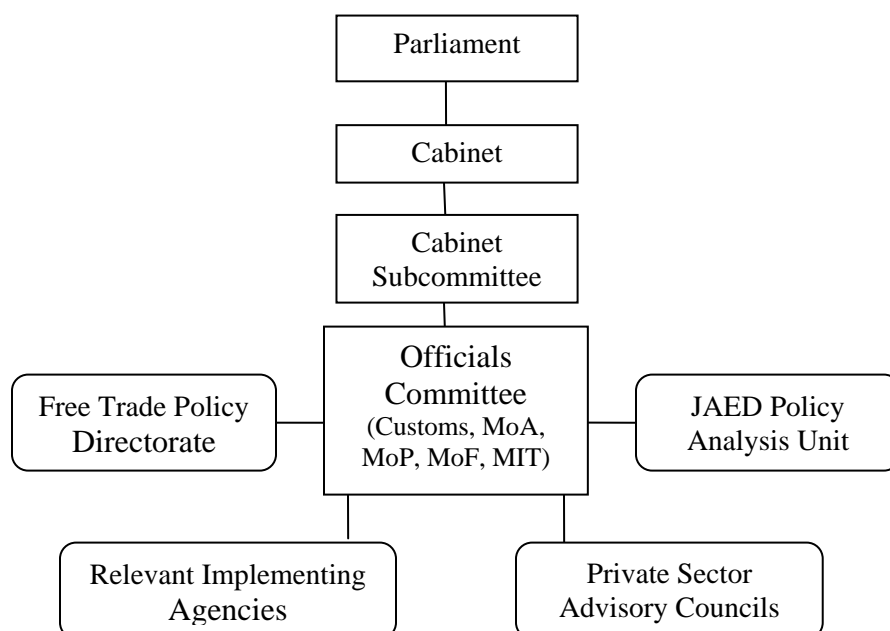
The important elements are to channel information from a broad cross-section of the economy through implementing government agencies up to senior decision makers in a consistent and transparent manner. As business associations become more familiar with trade issues and experienced at commenting on new policy the interdepartmental committee can publish “White Papers” seeking public comment on proposed policies and legislation – not just on trade policy but relating to any economic or social policy.

3.1 Proposed Trade Policy Formulation Structure for Jordan

To ensure that the interests of all relevant ministries and agencies are taken into consideration when formulating trade policy, countries rely on one or more coordinating committees. A senior ministerial committee should be mandated with formal decision making authority on trade issues. Jordan already has its Ministerial Development Committee that fulfills this role. Given the dispersal of decision making authority across government, Cabinet and Parliament, it is essential that the ministerial committee is made aware of these decisions and the decisions are coordinated.

Perhaps more importantly an inter-departmental committee made up of competent officials (Officials Committee) is necessary to prepare trade policies. Tasks include identifying policy or implementation issues from among its members, directing research, consulting with the private sector, and preparing position papers for the ministerial committee. Given the small size of the country, Jordanian officials do meet with each other and the private sector. However, such communication is ad hoc and often relies on personal lobbying rather than being systematic and inclusive. There is always the risk that interested parties are left out of the discussion because they are not perceived to have immediate trade interests or there are no time and resources to consult sufficiently.

It is also important that members of the Officials Committee remain in regular communication with each other. It may not be necessary to meet strictly each week or month; however, email traffic should keep members up to date. Members can form ad hoc subcommittees to deal with specialized issues and report back to the main committee. Business associations and other interested parties should raise problems and provide input directly to the Officials Committee rather than distracting the Cabinet Committee. The FTPD would continue its negotiation and agreement compliance role, but any consultation with other parties will take place through the Officials Committee. In practice FTPD will likely dominate the representation and work load of the committee, however, all members will be at least be informed of the committee’s work.

Figure 1. Suggested Trade Policy Formulation Institutional Structure

3.2 Role of JAED

The government is proceeding with the establishment of the Jordan Authority for Enterprise Development (JAED) under Interim Law (71) 2003. A board and Chief Executive Officer have been appointed. JAED is an independent government entity responsible for recommending to Cabinet policies broadly aimed at improving enterprise competitiveness in Jordan, and also for monitoring the three agencies responsible for implementing these policies – the Jordan Investment Board, the Jordan Export Development Corporation and the Jordan Industrial Estates Corporation.

Article 5(A) of the Law provides JAED with the following policy analysis functions and powers:

- 1- Studying the investment climate, economic sectors and the enterprises connected thereto.
- 2- Studying strategies and policies and proposing implementation plans programs necessary to support and develop the investment climate, economic sectors and the enterprises connected thereto.
- 3- Studying and proposing measures to increase the competitiveness of economic sectors and enterprises connected thereto.

Although trade policy is not expressly stated, it is an important element of each of these functions. Given its independent and authoritative status, JAED is an excellent vehicle for undertaking research on trade policy issues, i.e. the subset of issues influencing enterprise competitiveness that deal with trade policy.

PSPI of the AMIR Program is ready to provide trade research training to JAED staff as an important part of their policy analysis toolkit. An early priority for JAED is to establish a policy analysis unit. A forthcoming note will set out a possible structure and functions for such a unit within JAED.³

Support to JAED does not rule out development of competing sources of policy research in Jordan. Policy research is not a zero-sum game. JAED can play a catalytic role to channel funding and collaboration with private and academic research groups. JAED can be a champion for donor assistance to policy research. JAED can be an incubator for young economists in Jordan.

4. National Enterprise Strategy

The new Minister of Industry and Trade, Dr. Ahmed Hindawi, has requested AMIR Program support to prepare national trade, investment and industry strategies. Given their common impact on enterprise competitiveness, it is preferable to combine these strategies into one national enterprise strategy. At a presentation on 8 December 2004, the AMIR Program recommended that an enterprise strategy group be appointed from among local business leaders to guide the preparation of the strategy. Research, private sector consultation and drafting would be undertaken by a small group of full-time economists. These economists could eventually be recruited into the JAED policy analysis unit.

Preparation of the Enterprise Strategy is an excellent vehicle to drive a trade policy research agenda in Jordan. Through the process of consultation with public and private actors, new issues and new data will arise that JAED can work on in the medium term. A clear strategy will also inform the decisions of foreign investors and the long term plans of Jordanian investors. The strategy can comprehensively outline both policy direction and the formulation and implementation process discussed above.

³ One role of JAED is to monitor progress in the AMIR Program's Trade and Investment Information System project. This project is coordinating all sources of trade and investment data in Jordan to ensure use of common definitions and data management standards. The eventual goal is an integrated database